

Tax Implications of Disaster Losses and Weather-Related Sales of Livestock

Fires, drought, and other weather related disasters can greatly affect farms and ranches. It is important that farmers and ranchers have an understanding of how disasters affect their tax liabilities. Producers may be able to reduce their tax liabilities by using various provisions within the Internal Revenue Code. They should have a reasonable understanding of the tax code and consult with their professional tax advisors.

RURAL TAX EDUCATION

The National Farm Income Tax Extension Committee (Extension professionals from throughout the United States) provides myriad resources pertaining to income taxes, collaborates with the Internal Revenue Service to annually update and publish the Farmer's Income Tax Guide (I.R.S. Publication 225), and conducts educational programs. Members of the Committee have written a vast number of topical publications designed to help agricultural producers better understand various parts of the Internal Revenue Code.

Weather-Related Sales of Livestock

One fact sheet that may be of interest to agricultural businesses impacted by fires and drought in 2020 is *Weather-Related Sales of Livestock*. It explains two tax provisions that attempt to cushion producers from the consequences of adverse weather-related livestock sales.



Under the first provision, livestock held for draft, breeding, or dairy purposes and sold due to adverse weather are provided a specified reinvestment period. The second provision, which applies to all livestock (other than poultry), allows cash basis taxpayers whose primary trade or business is farming to defer receipt from sales in excess of normal business practices due to weather-related conditions that result in a disaster declaration area.

Disaster Losses and Related Tax Rules

A second fact sheet – *Disaster Losses and Related Tax Rules* – describes losses to property, the process used to determine if there is a deductible loss, how insurance proceeds and cost share benefits are treated, and how to reconstruct records to document a loss. Federal income tax regulations often provide relief by allowing deduction for losses of business use property. In order to deduct a loss for personal use property, the area in which the loss occurred must be declared a federal disaster area.



For more information:

- Hobbs, J.C. *Weather-Related Sales of Livestock*. Rural Tax Education. Sept. 2016.
http://www.ruraltax.org/files-ou/Livestock_Sales.pdf
- Hobbs, J.C. *Disaster Losses and Related Tax Rules*. Rural Tax Education. Oct. 2018.
http://www.ruraltax.org/files-ou/Disaster_Losses_and_Related_Tax_Rules.pdf
- National Farm Income Tax Extension Committee: <https://ruraltax.org>
- Internal Revenue Service: <https://irs.gov>